

SOUTHWESTERN COMMUNITY COLLEGE DISTRICT

Audit Report

COLLECTIVE BARGAINING PROGRAM

Chapter 961, Statutes of 1975;
and Chapter 1213, Statutes of 1991

July 1, 2007, through June 30, 2009



JOHN CHIANG
California State Controller

June 2014



JOHN CHIANG
California State Controller

June 18, 2014

Terri Valladolid, President
Board of Trustees
Southwestern Community College District
900 Otay Lakes Road
Chula Vista, CA 91910

Dear Ms. Valladolid:

The State Controller's Office audited the costs claimed by Southwestern Community College District for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975; and Chapter 1213, Statutes of 1991) for the period of July 1, 2007, through June 30, 2009.

The district claimed \$305,390 for the mandated program. Our audit found that \$146,477 is allowable (\$160,501 less a \$14,024 penalty for filing late claims) and \$158,913 is unallowable. The costs are unallowable primarily because the district overstated salaries and benefits, materials and supplies, and indirect costs. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$146,477, contingent upon available appropriations.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Melinda Nish, Ed.D., Superintendent/President
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Southwestern Community College District for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975; and Chapter 1213, Statutes of 1991) for the period of July 1, 2007, through June 30, 2009.

The district claimed \$305,390 for the mandated program. Our audit found that \$146,477 is allowable (\$160,501 less a \$14,024 penalty for filing late claims) and \$158,913 is unallowable. The costs are unallowable primarily because the district overstated salaries and benefits, materials and supplies, and indirect costs. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$146,477, contingent upon available appropriations.

Background

In 1975, the State enacted the Rodda Act (Chapter 961, Statutes of 1975), requiring the employer and employee to meet and negotiate, thereby creating a collective bargaining atmosphere for public school employers. The legislation created the Public Employment Relations Board to issue formal interpretations and rulings regarding collective bargaining under the Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives relating to collective bargaining.

On July 17, 1978, the Board of Control (now the Commission on State Mandates [CSM]) determined that the Rodda Act imposed a state mandate upon school districts reimbursable under Government Code section 17561.

Chapter 1213, Statutes of 1991, added Government Code section 3547.5, requiring school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding.

On August 20, 1998, the CSM determined that this legislation also imposed a state mandate upon school districts reimbursable under Government Code section 17561. Costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July 1, 1996, are allowable.

Claimants are allowed to claim increased costs. For components G1 through G3, increased costs represent the difference between the current-year Rodda Act activities and the base-year Winton Act activities (generally, fiscal year 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

The seven components are as follows:

- G1 - Determining bargaining units and exclusive representatives
- G2 - Election of unit representatives
- G3 - Costs of negotiations
- G4 - Impasse proceedings
- G5 - Collective bargaining agreement disclosure
- G6 - Contract administration
- G7 - Unfair labor practice costs

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on October 22, 1980 and amended them ten times, most recently on January 29, 2010. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Collective Bargaining Program for the period of July 1, 2007, through June 30, 2009.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Southwestern Community College District claimed \$305,390 for costs of the Collective Bargaining Program. Our audit found that \$146,477 is allowable (\$160,501 less a \$14,024 penalty for filing late claims) and \$158,913 is unallowable.

For the fiscal year (FY) 2007-08 claim, the State made no payment to the district. Our audit found that \$110,261 is allowable. The State will pay allowable costs claimed, contingent upon available appropriations.

For the FY 2008-09 claim, the State made no payment to the district. Our audit found that \$36,216 is allowable. The State will pay allowable costs claimed, contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on May 21, 2014. Wayne Yanda, Director of Finance, informed us on June 2, 2014, via telephone that the district would not be providing a response to the draft.

Restricted Use

This report is solely for the information and use of Southwestern Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 18, 2014

Schedule 1— Summary of Program Costs July 1, 2007, through June 30, 2009

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs				
Component activities G1 through G3:				
Salaries and benefits	\$ 119,238	\$ 56,297	\$ (62,941)	Finding 1
Travel and training	11,722	11,722	—	
Contract services	30,033	30,033	—	
Subtotal	160,993	98,052	(62,941)	
Less base year direct costs adjusted by implicit price deflator	—	—	—	
Increased direct costs, G1 through G3	160,993	98,052	(62,941)	
Component activities G4 through G7:				
Salaries and benefits	6,516	1,370	(5,146)	Finding 1
Materials and supplies	2,500	—	(2,500)	Finding 2
Increased direct costs, G4 through G7	9,016	1,370	(7,646)	
Total increased direct costs, G1 through G7	170,009	99,422	(70,587)	
Indirect costs	55,043	20,839	(34,204)	Finding 1, 3
Subtotal	225,052	120,261	(104,791)	
Less late filing penalty ²	—	(10,000)	(10,000)	
Total program costs	<u>\$ 225,052</u>	110,261	<u>\$ (114,791)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 110,261</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs				
Component activities G1 through G3:				
Salaries and benefits	\$ 51,575	\$ 28,327	\$ (23,248)	Finding 1
Travel and training	442	442	—	
Subtotal	52,017	28,769	(23,248)	
Less base year direct costs adjusted by implicit price deflator	—	—	—	
Increased direct costs, G1 through G3	52,017	28,769	(23,248)	
Component activities G4 through G7:				
Salaries and benefits	3,146	—	(3,146)	Finding 1
Contract services	1,224	1,224	—	
Increased direct costs, G4 through G7	4,370	1,224	(3,146)	
Total increased direct costs, G1 through G7	56,387	29,993	(26,394)	
Indirect costs	23,951	10,247	(13,704)	Finding 1, 3

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2008, through June 30, 2009 (continued)</u>				
Subtotal	80,338	40,240	(40,098)	
Less late filing penalty ²	—	(4,024)	(4,024)	
Total program costs	<u>\$ 80,338</u>	36,216	<u>\$ (44,122)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 36,216</u>		
<u>Summary: July 1, 2007, through June 30, 2009</u>				
Total increased direct costs	\$ 226,396	\$ 129,415	\$ (96,981)	
Indirect costs	78,994	31,086	(47,908)	
Subtotal	305,390	160,501	(144,889)	
Less late filing penalty ²	—	(14,024)	(14,024)	
Total program costs	<u>\$ 305,390</u>	146,477	<u>\$ (158,913)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 146,477</u>		

¹ See the Findings and Recommendations section.

² The district filed its FY 2007-08 and FY 2008-09 annual reimbursement claims after the due date specified in Government Code section 17560. Pursuant to Government Code section 17568, the State assessed a late filing penalty equal to 10% of allowable costs, not to exceed \$10,000 (for claims filed on or after August 24, 2007). Both claims were filed after August 24, 2007.

Findings and Recommendations

FINDING 1— Overstated salaries and benefits

The district claimed \$180,475 in salaries and benefits during the audit period. We found that \$85,994 is allowable and \$94,481 is unallowable. The costs are unallowable because the district overstated costs related to the Costs of Negotiation and Contract Administration cost components.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the audit period by reimbursable component:

Cost Components	Claimed	Allowable	Adjustment
<u>FY 2007-08</u>			
Salaries and benefits:			
G3 - Cost of Negotiations	\$ 119,238	\$ 56,297	\$ (62,941)
G6 - Contract Administration	5,146	-	(5,146)
G7 - Unfair Labor Practice Charges	1,370	1,370	-
Subtotal, salaries and benefits	<u>125,754</u>	<u>57,667</u>	<u>(68,087)</u>
<u>FY 2008-09</u>			
Salaries and benefits:			
G3 - Cost of Negotiations	51,575	28,327	(23,248)
G6 - Contract Administration	3,146	-	(3,146)
Subtotal, salaries and benefits	<u>54,721</u>	<u>28,327</u>	<u>(26,394)</u>
<u>Total</u>			
Salaries and benefits:			
G3 - Cost of Negotiations	170,813	84,624	(86,189)
G6 - Contract Administration	8,292	-	(8,292)
G7 - Unfair Labor Practice Charges	1,370	1,370	-
Total, salaries and benefits	<u>\$ 180,475</u>	<u>\$ 85,994</u>	<u>\$ (94,481)</u>

The program's parameters and guidelines (section G) state:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Component G3 – Cost of Negotiations

The district claimed \$170,813 for the Costs of Negotiations cost component during the audit period. We found that \$84,624 is allowable and \$86,189 is unallowable. The costs are unallowable because the district claimed ineligible costs for FY 2007-08 and FY 2008-09, and made a calculation error on its claim for FY 2008-09. Specifically, the district:

- Overstated salaries and benefits on Form 2 (Activity Costs Detail) of the filed claim totaling \$62,941 for FY 2007-08 and \$35,953 for FY 2008-09 for at-table negotiations. The district claimed costs for more

than five public school employer representatives per unit, per negotiation session. The parameters and guidelines allow reimbursement for the costs of a maximum of five public school employer representatives per unit, per negotiation session.

- For FY 2008-09, the district miscalculated salaries and benefits reported on Form 2 of the filed claim. Consequently, the district understated the amount it carried forward to Form 1 (Claim Summary) of the filed claim by \$12,705.

Component G6 - Contract Administration

The district claimed \$8,292 for the Contract Administration cost component during the audit period. We found that the entire amount is unallowable. The costs are unallowable because the district did not provide supporting documentation for the costs claimed.

For FY 2007-08, the district overstated salaries and benefits related to staff meetings totaling \$5,146. The overstatement occurred because the district estimated 60 hours for staff meetings held during FY 2007-08 based on staff meeting hours claimed for FY 2008-09.

For FY 2008-09, the district overstated salaries and benefits totaling \$3,146. The overstatement occurred because the district did not provide supporting documentation for the hours claimed.

The district provided Excel spreadsheets, which showed the dates staff meetings were held for each fiscal year. However, the Excel spreadsheets did not indicate the individuals present at the meetings. Furthermore, calendars, sign-in sheets, or any other source documentation were not provided by the district to support the costs claimed.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that all costs claimed are reimbursable per the parameters and guidelines, and are properly supported. Supporting documentation should identify the mandated functions performed and support the actual number of hours devoted to each function.

**FINDING 2—
Overstated materials
and supplies**

The district claimed \$2,500 for Southern California Community College District Employment Relations Consortium for a series of workshops facilitated by a law firm for FY 2007-08. We found that the entire amount is unallowable.

The workshop was conducted to provide legal advice to the district regarding any changes in law, education code, and code of regulations that might affect negotiations. The costs are ineligible because personal development and informational programs—specifically classes, conferences, seminars, workshops—and time spent by employees attending such meetings are ineligible costs per the parameters and guidelines.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that all costs claimed are reimbursable per the parameters and guidelines, and are properly supported. Supporting documentation should identify the mandated functions performed as required by the claiming instructions.

**FINDING 3—
Overstated indirect
costs**

The district claimed \$78,994 in indirect costs for the audit period. We found that \$31,086 is allowable and \$47,908 is unallowable. The costs are unallowable because the district overstated salaries and benefits (see Finding 1) and did not apply the indirect cost rate to the correct base.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the audit period by fiscal year:

	Fiscal Year		Total
	2007-08	2008-09	
Allowable increased direct salaries	\$ 47,610	\$ 23,411	
Allowable indirect cost rate	43.77%	43.77%	
Allowable indirect cost	20,839	10,247	\$ 31,086
Indirect cost claimed	(55,043)	(23,951)	(78,994)
Audit adjustments	\$ (34,204)	\$ (13,704)	\$ (47,908)

The U.S. Department of Naval Research Services approved the 43.77% rate to be applied to an allocation base of direct salaries and wages, but excluding all other fringe benefits. However, the district applied the 43.77% indirect cost rate to salaries and benefits. As a result, \$16,588 is unallowable due to the application of the 43.77% indirect cost rate to employee benefits.

The parameters and guidelines (section V) state:

Community colleges have the option of using: (1) a federally approved rate, utilizing the cost accounting principles from the Office of Management and Budget Circular A-21, "Cost Principles of Educational Institutions"; (2) the rate calculated on State Controller's Form FAM 29-C; or (3) a 7% indirect cost rate.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that it applies its indirect cost rate to the applicable indirect cost base.

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